










“Disentangling the influence of CSR initiatives on the performance of banking institutions”

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DISENTANGLING THE INFLUENCE OF CSR INITIATIVES ON THE PERFORMANCE OF BANKING INSTITUTIONS

Abstract

This study aims to investigate the effects of different corporate social responsibilities (CSR) on the organizational performance of the banking sector. The target population of this study was bank employees working at various bank branches in Bangladesh. In this investigation, the data gathering procedure was conducted utilizing a Google Form distributed via email, accompanied by a cover letter, to facilitate participation among bank employees. The study collected data from the current bank employees of several banking institutions in Bangladesh. They were sent a survey invitation to participate, and after their approval, their responses were gathered. A five-point Likert scale was used to determine the item-wise questionnaire, with '1' indicating 'Strongly Disagree' and '5' indicating 'Strongly Agree'. The final sample size was 263. Moreover, to evaluate the hypothesis, a 5% significance level and SPSS software were used to analyze the data for research purposes. The outcome of this study shows that internal and external CSR activities have a positive and significant impact on the organizational performance development of Bangladesh's banking sector. These factors can account for 52.70% of the variability observed in forecasting the performance of bank organizations. External CSR initiatives ($\beta = 0.318$; $t = 5.937$) have the highest effect on a bank's performance. Additionally, a substantial correlation coefficient ($r = 0.436$) is present between internal CSR and bank performance. This study might provide significant clues to the management committees of the banking sector that can severely influence a bank's performance development.

Keywords

banking sector, internal CSR, bank employee, external CSR, organizational performance

JEL Classification

G28, L31, M14

INTRODUCTION

Within the ever-changing Bangladeshi banking industry, corporate social responsibility (CSR) has developed to go beyond traditional profit-focused models and now encompasses a more inclusive approach to business behavior. Within the complex economic context of Bangladesh, where the banking sector plays a crucial role in the financial system, it is important to examine the intricate connection between corporate social responsibility (CSR) activities and organizational performance development. This exploration holds great significance for both academic research and practical applications. The banking sector in Bangladesh has a diverse role, going beyond conventional banking services to actively shape and impact societal advancement. Through an in-depth exploration of this relationship, the study aims to provide evidence-based insights that can guide strategic decision-making in the banking industry, delivering useful viewpoints for stakeholders and policymakers. With the increasing expectations of stakeholders for more openness, ethical conduct, and dedication to social and environmental issues, Bangladesh's banking industry is con-

fronted with integrating corporate social responsibility (CSR) programs with its overall organizational objectives. This presents both problems and opportunities for the sector. It is argued that the deliberate incorporation of CSR principles can enhance Bangladesh's banking industry's long-term growth and stability and establish a precedent for ethical business practices that can significantly affect the broader banking industry. Specifically, CSR activities improve bank staff involvement, impacting overall development and performance. So, it is necessary to study how CSR activities impact bank's organizational performance in Bangladesh.

1. LITERATURE REVIEW AND HYPOTHESES

Banking institutions must proactively manage their corporate image to distinguish themselves from competitors and inspire client trust in the efficiency of their operations (Flavián et al., 2005). The administration of this corporate image has generated significant interest, with an increasing emphasis on CSR among both academics and professionals (Rugimbana et al., 2008). Due to the ongoing evolution of the social and economic environment, the definitions and understandings of CSR are constantly changing. To address the possible confusion caused by different interpretations of CSR, this study follows the definition put forth by Waldman et al. (2006), which states that CSR denotes the initiatives undertaken by businesses to safeguard or enhance societal well-being beyond the obligatory legal standards, aiming to benefit both the company and its stakeholders. CSR refers to integrating economic, social, and environmental factors into a company's operations and relationships with stakeholders (van Marrewijk, 2003). Rugimbana et al. (2008) propose that banks may need to implement a strategy that effectively reconciles their services' social and economic dimensions to fulfill their clients' demands. The increased emphasis on CSR is a response to the growing worries in society about environmental deterioration (Turker, 2009). The heightened public scrutiny of CSR has compelled businesses to disclose details about their environmental and social endeavors to consumers (Hamrouni et al., 2019). CSR is the practice of integrating social and environmental factors into a firm's commercial operations and interactions with stakeholders (Narwal, 2007). CSR has become an essential part of corporate strategy, as businesses now prioritize incorporating environmental and social factors into their operations (Bocquet et al., 2017). An essential aspect of Corporate Social Responsibility

(CSR) pertains to the way in which businesses interact with their stakeholders. Ioannou and Serafeim (2014) argue that effectively managing stakeholder relationships, a crucial aspect of corporate social responsibility (CSR), can potentially improve business performance.

Corporate Social Responsibility entails that firms have a duty to society that goes beyond their limited obligations to owners or shareholders (Narwal, 2007). Also, CSR can be perceived as a tactic to attain a competitive edge, enhance the company's trustworthiness among stakeholders, and cultivate a durable reputation (Holder-Webb et al., 2009). Conversely, Gautam and Singh (2010) stated that the current body of Corporate Social Responsibility (CSR) literature implies that CSR influences both a company's positive reputation and its financial performance in a negative way. CSR offers a multitude of advantages to the banking sector, providing a suitable method for integrating moral and ethical concepts within the company. Dutt and Grewal (2018) argued that CSR in banking promotes social responsibility and ethics and is a powerful marketing strategy for connecting with stakeholders. Therefore, adopting CSR can be favorable for both business shareholders and stakeholders, creating a possible mutually beneficial situation within the banking industry (Wu & Shen, 2013). Although extensively studied by experts, the research findings on the relationship between CSR and business performance are still unclear (Kuzey et al., 2021), especially in the banking industry. This study classifies employees' perceptions of corporate social responsibility (CSR) into two categories: internal CSR and external CSR. These categories comprise both the corporation's internal stakeholders (such as employees) and external stakeholders.

Internal CSR is an organizational policy and practice associated with employees' mental and physi-

cal health (Hameed et al., 2016). This idea focuses on developing company-specific talent and increasing employee volunteer opportunities to increase individual and organizational advantages (Farooq et al., 2017). Internal CSR refers to the company's dedication to its employees, specifically focusing on matters such as employee career development, requirements, and educational opportunities (Bouraoui et al., 2019). The statement demonstrates the company's commitment to fulfilling its ethical and legal obligations by prioritizing its employees' well-being, considering environmental and community factors, and preserving the long-term viability of the community and the interests of the company's stakeholders. The conceptual framework of internal CSR largely corresponds to the broader CSR framework outlined in reference (Carroll, 1979), with the key difference being the focus or importance placed on stakeholder theory issues. This aspect of CSR focuses on developing the firm's own people resources, expanding the range of volunteer options available to employees, and eventually improving the individual or deliberate advantages for the organization (Jia et al., 2019). The corporation has an ethical and legal obligation to prioritize employee well-being and consider environmental and community factors to maintain the long-term sustainability of the community and the company's broader stakeholders (Low, 2014). Internal CSR, which encompasses the provision of employee welfare services, is closely linked to the psychological and physiological well-being of employees, highlighting the fundamental principle of CSR, which prioritizes the well-being of employees over the interests of the corporation (Brammer et al., 2007). Implementing ICSR practices within the organization motivates and satisfies most employees, especially when they become aware of the crucial steps to address their well-being and social requirements (Adu-Gyamfi et al., 2021). Furthermore, internal corporate social responsibility (CSR) initiatives that directly affect individual employees can promote positive employee behavior and attitudes, which in turn can have a wider impact on the organization's overall effectiveness and ultimately result in improved performance (Cohen, 2017). Therefore, this study suggests that banks that are more aware of their internal CSR activities are likely to have better organizational performance through their bank employees.

External CSR pertains to an organization's voluntary dedication to acknowledge and tackle its activities' wider societal and environmental consequences, going outside its internal operations (Farooq et al., 2017). This entails taking proactive measures to actively connect with external stakeholders, make meaningful contributions to communities, and maintain ethical practices while interacting with consumers, suppliers, and the environment (Shen & Zhang, 2019). External CSR refers to an organization's recognition of its obligations that extend beyond its immediate organizational limits (Hawn & Ioannou, 2016). External CSR efforts specifically aim to enhance the welfare of external stakeholders, including activities such as community and regional development, collaborations across different sectors, and the promotion of social and environmental policies (Kim et al., 2023). It emphasizes a dedication to sustainable and socially conscious business practices that have positive effects on society as a whole. The differentiation is of utmost importance for employees, as the perceived internal corporate social responsibility (CSR) appears to be focused on self-interest, whilst the perceived external CSR seems to be aimed towards benefiting others (Hameed et al., 2016). Hence, these two facets of CSR can have separate effects on the attitudes and behaviors of employees. Unlike internal CSR, which focuses on internal operations and is less likely to receive public recognition, external CSR is more visible and has a greater chance of attracting public attention. It clearly indicates a company's commitment to social responsibility (McWilliams & Siegel, 2000). External corporate social responsibility (CSR) helps to cultivate a reputation for a company as reliable and trustworthy. Story and Neves (2015) found that external CSR might affect employee performance which is essential for organizational performance. Therefore, the argument of this study is that banks that are more aware of their external CSR activities are likely to achieve higher organizational performance through their bank employees.

The literature reveals a complex interplay between internal CSR (INTCSR), external CSR (EXTCSR), and the bank's organizational performance (BOPER). Also, INTCSR, EXTCSR, and BOPER are pivotal drivers of bank performance.

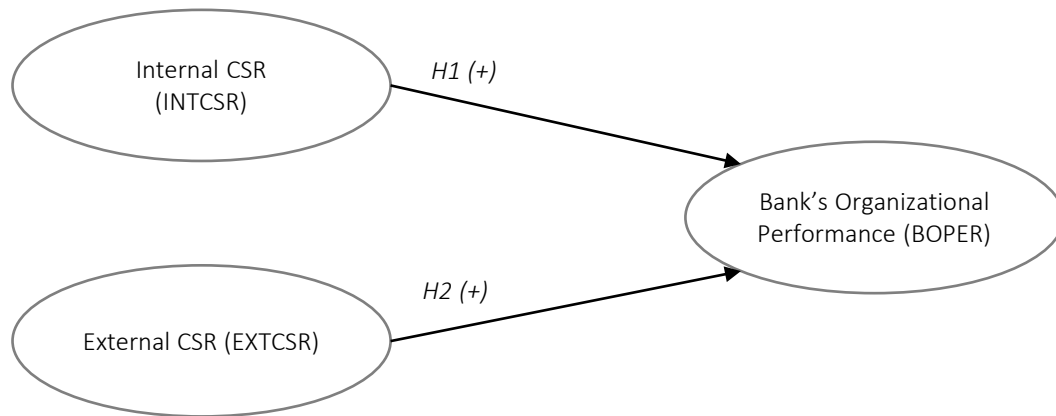


Figure 1. Study framework

Understanding these factors is essential for fostering the overall performance growth of banking institutions.

The purpose of this study is to determine the impact of internal CSR (INTCSR), and external CSR (EXTCSR) on the organizational performance of a bank (BOPER). Thus, it is hypothesized that

- H1: There is a positive connection between internal CSR (INTCSR) and the organizational performance of a bank (BOPER).*
- H2: There is a positive connection between external CSR (EXTCSR) and the organizational performance of a bank (BOPER).*

2. METHODOLOGY

It focused primarily on banking institutions engaged in diverse CSR projects for the local community. Three factors determined the choice of the banking organizations. At first, the banks were required to actively engage in socially responsible activities, as demonstrated by their sustainability reports and CSR disclosures. Furthermore, in accordance with the viewpoint presented by Gounaris (2005), incorporating information from a range of sources with varied responses tends to enhance the connections within the examined constructs. Therefore, this criterion was implemented to guarantee the inclusion of firms from different industries. Furthermore, the essential factor was the readiness of participants to provide the necessary information. The research technique used

is functional in its overall objective and, in terms of analytical approach, it is aligned with a scaling methodology. The participants in the study are selected from the top four private banks formally registered with Bangladesh's central bank. The data-gathering process involved the utilization of a questionnaire that was subjected to pretesting with a small sample of bank employees residing in urban areas of Bangladesh. Modifications were implemented to some inquiries to improve lucidity and conform to the precise goals of this study. The questionnaire contained a cover letter that clearly outlined the aims of the study and provided assurance to responders regarding the confidentiality of their data. Crucially, participants were not obligated to reveal any personal details save for an identification number, which was utilized to match their performance ratings with those of their supervisors. The survey questionnaire was sent to 400 bank employees of different bank branches in Bangladesh. To increase the rate of response, participants were motivated by providing incentives, such as mobile recharge vouchers, as a reward for completing the survey. The authors obtained 263 valid responses from participants where the response rate was 66 percent. The survey consisted of two sections, which included four separate concepts and demographic information about the bank employees. The study utilized three scales: internal CSR, external CSR, and the bank's organizational performance. To evaluate the hypotheses, recognized and trustworthy multi-item assessment scales were employed that had been previously validated. The questionnaire was created using scales borrowed from preexisting research.

Table 1. Reliability and validity analysis

Construct	Items	Loading	Cronbach (α) value
Internal CSR (INTCSR)	INTCSR1	0.783	0.885
	INTCSR2	0.892	
	INTCSR3	0.901	
External CSR (EXTCSR)	EXTCSR1	0.734	0.903
	EXTCSR2	0.892	
	EXTCSR3	0.863	
Organizational performance of the bank (BOPER)	BOPER1	0.774	0.893
	BOPER2	0.903	
	BOPER3	0.883	
	BOPER4	0.912	

The items for each construct were assessed using a 5-point Likert Scale, where “1” represented a position of “Firm Disagreement” and “5” indicated a stance of “Firm Agreement” on the scale. Data analysis was conducted using a three-step approach. First, a preliminary test was performed to remove measures within each construct that did not adequately explain the variation in the relevant construct. Following that, Confirmatory Factor Analysis was conducted to evaluate the reliability and validity of the model. Finally, hypotheses were analyzed via SPSS software. The reliability of the collected data from the questionnaire was assessed using Cronbach’s alpha. The results revealed that the Alpha coefficient was 0.77, which is considered a satisfactory number and indicates a high level of reliability for this study (Tu et al., 2021). The measurement scales are displayed in Table 1.

3. RESULTS & DISCUSSION

The tabulated data (see Table 2) present the demographic characteristics of the respondents. An analysis of age distribution was used to assess the demographic composition of bank employees in Bangladesh.

Table 2. Demographic information

	Frequency	Percentage (%)
Age (in years)		
From 18 to 30 years	45	17.1%
From 31 to 40 years	103	39.2%
From 41 to 50 years	65	24.7%
More than 50 years	50	19.0%
Gender		
Male	190	72.2%
Female	73	27.8%

	Frequency	Percentage (%)
Job Title of Bank Employees		
Officer	103	39.2%
Senior Officer	88	33.5%
Assistant Manager	40	15.2%
Senior Manager	32	12.2%
Education		
Bachelor’s Degree	67	25.5%
Postgraduate Degree	196	74.5%

Note: ** n = 263.

Approximately 39.2% of the respondents are between the ages of 18 and 30, indicating that a major share of the banking workforce is young. The age categories of 31 to 40 years (24.7%) and 41 to 50 years (19.0%) have a varied demographic profile, offering valuable information about the representation of different generations in the banking sector. Gender representation: The gender dynamics in the banking workforce can be understood by analyzing the number of male and female employees. The data indicate that male employees make up the majority, at 72.2% of the total, while female employees account for 27.8%. The gender distribution observed in the banking business in Bangladesh necessitates a more thorough investigation into the gendered dimensions of employment and opportunity within this sector. An in-depth comprehension of the professional hierarchy inside banks can be obtained by analyzing the allocation of job titles. The job title that is most commonly found is “Officer,” making up 39.2% of the individuals surveyed. This suggests that there is a significant number of employees at the beginner level. In addition, the hierarchy is structured in such a way that “Senior Officer” accounts for 33.5% of the positions, while management positions like “Assistant Manager” (15.2%) and “Senior Manager” (12.2%) contribute to the variety within the hierarchy. The hierarchical breakdown offers

valuable insights into the banking industry's organizational framework and professional advancement opportunities. Level of education achieved: The educational credentials of bank personnel are crucial in shaping the intellectual environment of the workforce. 74.5% of the workforce has a Postgraduate Degree, indicating a highly educated workforce. Conversely, 25.5% of individuals hold a Bachelor's Degree, suggesting various educational experiences. This educational distribution emphasizes the significance of high-level qualifications in the banking profession and enhances the academic environment of the banking sector. To summarize, the thorough examination of demographic traits, gender distribution, job designations, and educational credentials fully comprehends the structure and fluctuations of bank personnel in Bangladesh. These findings are crucial for understanding the workforce and laying the groundwork for future research in the field of banking sector dynamics.

Table 3 presents the descriptive statistics of the study variables related to a bank's organizational performance. The variables examined include in-

ternal CSR (INTCSR) and external CSR (EXTCSR). The results of the normality evaluation are within the designated range (see Table 4). Therefore, it is considered acceptable.

Table 5 displays the correlation matrix of the variables: a bank's organizational performance (BOPER), internal CSR (INTCSR), and external CSR (EXTCSR). Correlation coefficients quantify the magnitude and direction of linear associations between variables. Regarding the bank's organizational performance (BOPER) as the dependent variable, it is worth mentioning that both Internal CSR (INTCSR) and External CSR (EXTCSR) show statistically significant positive relationships with BOPER. INTCSR exhibits a moderate positive correlation ($r = 0.436$, $p < 0.05$), whereas EXTCSR displays a somewhat weaker positive association ($r = 0.384$, $p < 0.05$). As a bank's internal CSR efforts increase, there is a proportional improvement in the bank's organizational performance. Likewise, improvements in external CSR initiatives, such as community involvement or environmental sustainability efforts, are linked to positive results in

Table 3. Descriptive analysis of the study variables

Variables	N	Mean	Std. Deviation
Internal CSR (INTCSR)	263	4.183	0.2843
External CSR (EXTCSR)	263	4.283	0.4837
Organizational performance of the bank (BOPER)	263	4.392	0.2736

Table 4. Analysis of the normality test

Variables	Skewness	Kurtosis
Internal CSR (INTCSR)	0.2633	-0.273
External CSR (EXTCSR)	-0.352	0.525
Organizational performance of the bank (BOPER)	-0.635	0.264

Table 5. Correlation matrix

Variables	BOPER	INTCSR	EXTCSR
Organizational performance of the bank (BOPER)	1.000	—	—
Internal CSR (INTCSR)	0.436**	1.000	—
External CSR (EXTCSR)	0.384**	0.226**	1.000

Note: ** $p < 0.05$ ($n = 263$).

Table 6. Regression coefficient analysis

Variables	β value	t-value	Sig.	Tolerance	VIF
Internal CSR (INTCSR)	0.215	4.028	0.000**	0.837	2.093
External CSR (EXTCSR)	0.318	5.937	0.000**	0.908	1.883

Note: $R^2 = 0.527$ or 52.7%; Durbin-Watson value = 2.233; Dependent variable: Organizational performance of the bank (BOPER); * $p < 0.10$; ** $p < 0.05$ ($n = 263$).

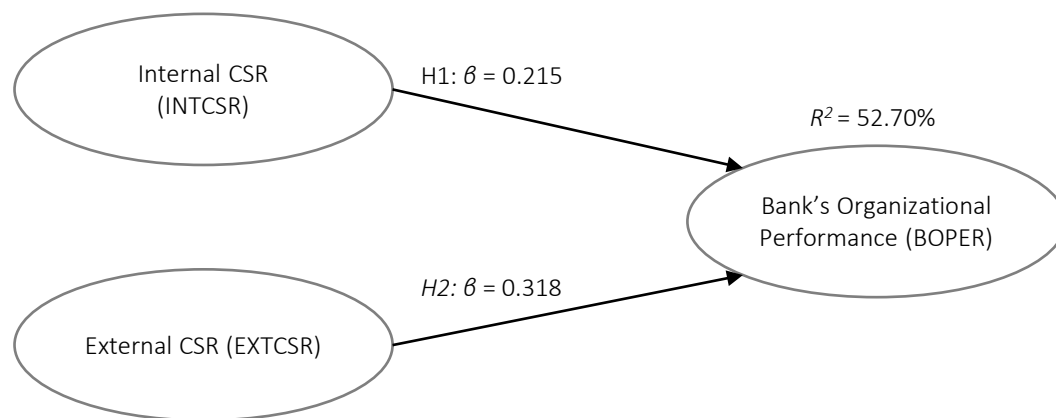


Figure 2. Regression results

the bank's performance. The findings indicate that the implementation of both internal and external CSR practices has a substantial impact on the performance of banks. This emphasizes the significance of integrating CSR strategies into overall business operations to achieve long-term success.

Table 6 presents regression coefficients for Internal CSR (INTCSR) and External CSR (EXTCSR) predicting the Organizational Performance of a bank (BOPER). Both predictors are statistically significant ($p < 0.05$).

In this study, Table 6 and Figure 2 show the test of hypotheses. Table 6 also indicates that $R^2 = 0.527$, or 52.7%, determined the variance in a bank's organizational performance (BOPER), which encircles two variables, internal CSR (INTCSR) and external CSR (EXTCSR), which are accepted at a 5% significance level.

In terms of regression analysis, hypothesis 1 (one) shows that there is a causal connection between internal CSR (INTCSR) and the organizational performance of a bank (BOPER) that is accepted at the rate of 5% significance level ($\beta = 0.215$, $p < 0.05$). The past study also supports this result as internal CSR acts as a robust influencing factor in the organizational performance of a bank (Waheed et

al., 2021; Mory et al., 2016). This study's findings show the complex correlation between internal CSR initiatives and the operational effectiveness of banks in Bangladesh. The current study enhances the current body of research by offering empirical evidence on the impact of internal CSR activities on different aspects of a bank's performance. An important finding from the analysis is the direct relationship between internal CSR initiatives and the performance indicators of banks. The results indicate that banks engaging proactively in internal CSR endeavors typically demonstrate enhanced organizational performance. Organizations that actively participate in internal CSR initiatives experience significant enhancements in their overall effectiveness and efficiency (Iqbal et al., 2012). Empirical evidence demonstrates that internal CSR initiatives positively impact productivity within the banking industry. CSR efforts cultivate a positive organizational culture, enhancing staff efficiency and effectiveness and leading to greater performance for the banking sector (Ranjan & Yadav, 2018). Hypothesis 2 proposes a positive relationship between external CSR (EXTCSR) and the organizational performance of a bank (BOPER). This statement is supported by evidence at a 5% significance level ($\beta = 0.318$, $p < 0.05$). Previous studies support this discovery, highlighting the strong impact of external

Table 7. Hypothesis results

Proposed Hypotheses	p-value	Decision
H1: There is a positive connection between internal CSR (INTCSR) and the organizational performance of the bank (BOPER)	0.000	Accepted
H2: There is a positive connection between external CSR (EXTCSR) and the organizational performance of the bank (BOPER)	0.000	Accepted

CSR on a bank's performance at the organizational level (Waheed et al., 2021; Story & Neves, 2015). This study's findings illuminate the influence of external CSR initiatives on the operational effectiveness of banks in Bangladesh. The study establishes a direct relationship between a bank's involvement in external CSR activities and improving its reputation within the banking industry. Banks that actively engage in external corporate social responsibility (CSR) initiatives often observe an enhanced public perception and reputation within the community. This favorable perception helps strengthen the organization's overall reputation, which is cru-

cial for long-term organizational success (Gupta & Sharma, 2016). The data of this study demonstrate a significant correlation between external CSR actions and relationships with stakeholders. Banks participating in external CSR initiatives are more inclined to develop and enhance connections with diverse stakeholders, such as regulatory bodies, local communities, and non-governmental organizations. Positive relationships benefit the operating environment and can make it easier to interact with external organizations. This might potentially decrease regulatory obstacles and improve the bank's overall performance.

CONCLUSION

The examination of CSR activities in Bangladesh's banking sector is of utmost significance, especially when considering the perspective of employees. By assessing the degree to which banks in Bangladesh prioritize CSR activities, one can determine their dedication to social responsibility, which can impact both the welfare of employees and perhaps contribute to the general growth and efficiency of the organization. This extensive investigation is crucial for understanding the interrelated dynamics between CSR, employee viewpoints, and the trajectory of organizational development in the banking sector. In short, this study aimed to investigate the influence of both internal and external CSR on the organizational performance of the banks in Bangladesh, thus filling a vacuum in the literature. From the analysis of this study, it can be concluded that both internal and external CSR generally positively impact the overall performance development of the banks for their better organizational growth. The active endorsement and implementation of both internal and external social responsibility practices by senior leadership in banking institutions is crucial. This commitment is to improve the social welfare of employees, consequently promoting increased organizational performance and enhancing the image and reputation of a banking institution. This study significantly contributes to the current body of literature by highlighting the crucial relationship between CSR activities and the organizational performance of the banking industry.

IMPLICATIONS

The outcomes of this study carry substantial managerial implications for banks operating in Bangladesh, offering a nuanced understanding of the intricate impacts of both internal and external CSR initiatives on organizational performance. Integrating CSR poses intricate challenges for bank executives and decision-makers, and the study underscores the following key considerations: Managers are strongly advised to embrace a comprehensive CSR strategy that encompasses both internal and external dimensions. The study underscores the significance of adopting an integrated approach, where internal CSR efforts, focusing on aspects such as employee welfare and ethical practices, synergize with external CSR activities like community development and environmental sustainability. Through the implementation of a comprehensive CSR policy, banks can leverage synergistic effects that positively influence overall organizational performance. The study emphasizes a direct relationship between internal CSR activities and organizational performance. Managers should recognize the pivotal role of employees as primary stakeholders. Allocating resources toward employee well-being, training, and development enhances individual job satisfaction and collectively improves organizational outcomes. An engaged workforce is likely to foster innovation, productivity, and customer satisfaction. Community outreach and reputation

management are crucial for shaping the bank's external perception. This involves active participation in external CSR activities, such as community development projects and environmental sustainability efforts. Managers should view these initiatives not solely as charitable acts but as calculated investments in constructing a favorable corporate reputation. An established reputation for social responsibility can enhance customer confidence, attract socially conscious investors, and mitigate potential regulatory liabilities. In alignment with the global trend towards sustainable business practices, managers are encouraged to synchronize CSR efforts with the United Nations' Sustainable Development Goals (SDGs). Aligning corporate endeavors with globally recognized standards allows banks in Bangladesh to exhibit their dedication to addressing broader societal issues while simultaneously enhancing their performance and reputation. To ensure the sustained efficacy of CSR activities, management needs to establish robust monitoring and assessment processes. Periodic evaluations of the impact of both internal and external CSR initiatives on crucial performance metrics will enable evidence-based modifications and the enhancement of CSR strategies over time. In conclusion, this study advocates for a methodical and cohesive strategy in Bangladesh's banking industry. Managers can achieve a harmonious balance between profitability and social responsibility by integrating internal and external CSR efforts, meeting societal expectations, and fostering sustainable organizational development.

AUTHOR CONTRIBUTIONS

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Software: K. M. Anwarul Islam, Farhana Islam, Zulfiqar Hasan.

Supervision: K. M. Anwarul Islam.

Validation: K. M. Anwarul Islam, Farhana Islam, Zulfiqar Hasan.

Visualization: K. M. Anwarul Islam, Farhana Islam, Zulfiqar Hasan.

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Writing – reviewing & editing: K. M. Anwarul Islam, Farhana Islam, Zulfiqar Hasan.

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